

Scaling Up Microfinance



Underwriting to Scale

Joyce Klein, FIELD at the Aspen Institute
Luz Gomez, FIELD at the Aspen Institute
Leslie Hoffman, FIELD at the Aspen Institute

November 1, 2013



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Go-To-Webinar

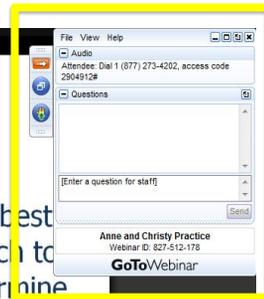
Scaling Up Microfinance

GOAL

To enhance Microfinance CDFIs' exposure to best practices in the field as well as tools with which to analyze their own business practices and determine appropriate strategies to scale.

SUCCESS

Each microfinance organization will identify, and begin to implement, at least one new initiative to facilitate scaling operations.



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CDFI Fund's Capacity Building Initiative

- The Capacity Building Initiative will greatly expand technical assistance and training opportunities for Community Development Financial Institutions (CDFIs) nationwide and significantly boost the ability of CDFIs to deliver financial products and services to underserved communities.
- Industry-wide training will target key issues currently affecting CDFIs and the communities they serve.



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Scaling Up Microfinance Task Order

Expand the capacity of CDFIs that specialize in microfinance through a program focused on decreasing costs, exploring new products, building human capital, and improving business models in order to attract investments.

- 3 Trainings
 - Technical Assistance
 - Virtual Resource Bank



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Presenters



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Underwriting Mentored Working Groups



Goal:

- Provide a collaborative learning experience that enriches your knowledge of underwriting as a component of risk management

Content:

- Case studies from industry and group members on key areas of underwriting success and struggle
- Examination of business model impact
- Reflection on individual and organizational approach



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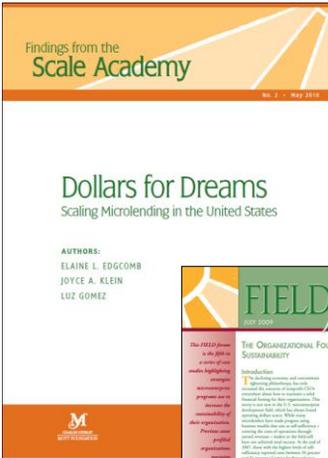
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Agenda

- Intros
- The Road to Repayment Framework
- Underwriting Framework
- Key Takeaways



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Findings from the Scale Academy
No. 7 - May 2012

Dollars for Dreams

Scaling Microlending in the United States

AUTHORS:
ELAINE L. EDGOMB
JOYCE A. KLEIN
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Drawing on FIELD's body of work



FIELDforum
April 2012

THE ORGANIZATIONAL FOUNDATIONS OF SUSTAINABILITY

Introduction
The development of sustainable organizations is a complex process that requires a deep understanding of the organizational foundations of sustainability. This report explores the key factors that influence the success of sustainable organizations, including leadership, culture, and structure.

Focus of This Case Study
This case study focuses on the organizational foundations of sustainability at the CDFI Fund, a leading national organization in the field of community development financial institutions.



Findings from the Scale Academy
No. 5 - March 2012

Innovating to Scale

How do microenterprise development organizations scale up their microbanking and business development services? It is not by doing more of the same. Rather, it is accomplished by innovating large and small—on-going new practices, offering new products and services, finding new partnerships, and reaching practices that have proven successful for others. This is the last case coverage after practitioners to illustrate.

Implementing a credit-scoring model to assess loan applicants

Use of to use historical data to create a model that helps to assess loan applicants and to price loans on the basis of risk. practitioners' assessment of an array of factors, including previous payment obligations and current liabilities, among others.

to have been implemented, that are based on the organization's data. This case study illustrates how conducting an initial loan application is a key effort. The assessment model then is used to more effectively assess the likelihood of loan approval as well likely loan amounts and terms so the applicants can describe next steps.

Learning and servicing

(ACORN) New York University and Global, SECION of Environmental, and Opportunity Fund use ACORN program business to implement parts of field have provided been application using an automated scoring model. First loans, product design decisions, and provide tools for serving to credit business. Documenting some of all of these factors must be tracking and data, capturing the number of microenterprises high-impact-also-level for credit. Opportunity also continues loan servicing to partner fields as a model.



FIELDforum
April 2012

INCREASING SUSTAINABILITY THROUGH IMPROVED EFFICIENCY

Introduction
The CDFI Fund's 2012 focus is on a number of key areas, including increasing the efficiency of its operations. This report explores the key factors that influence the success of sustainable organizations, including leadership, culture, and structure.

Focus of This Case Study
This case study focuses on the organizational foundations of sustainability at the CDFI Fund, a leading national organization in the field of community development financial institutions.



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Underwriting Group Participants

Group A

- BOC Capital
- Coastal Enterprises
- New Jersey Community Capital
- Northern Initiatives
- Self-Help
- Women's Economic Ventures

Group B

- CommunityWorks Carolina
- International Institute CDC
- Innovative Changes
- La Fuerza Unida CDC
- New York University Federal Credit Union
- Opening Doors
- Rocky Mountain Microfinance Institute



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Who's on the call today?



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What critical areas of underwriting do you feel need most attention?



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What we heard...

How can we ensure our underwriting processes accommodate increasing scale?

How can technology help?

How can we ensure a strong portfolio?

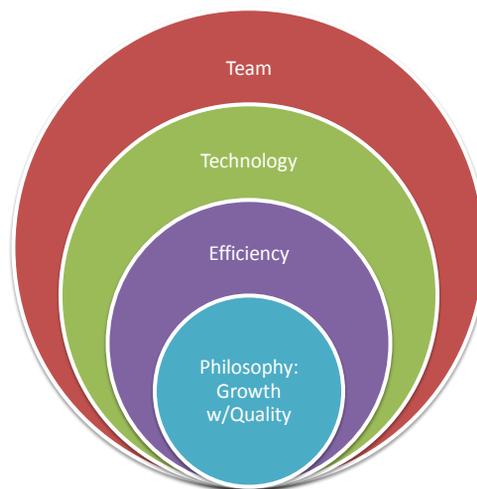
How can we make underwriting more efficient?



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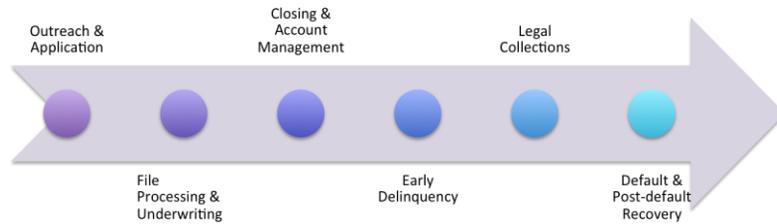
Our Exploration of Underwriting



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Our Compass: The Path to Repayment



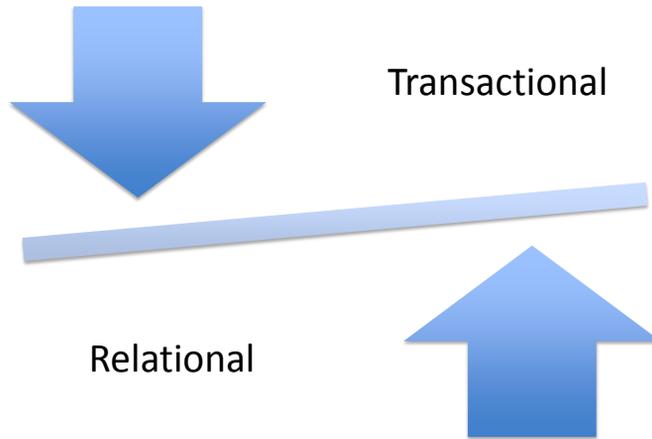
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Breaking Down Risk: Key Categories



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"The Rub" of Growth and Quality



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Standard Factors of Credit Risk

Quantitative



- Credit Profile (FICO, BK Index)
- Capacity (DSCR, DTI)
- Loan-to-value coverage

Qualitative



- Business characteristics
- Borrower characteristics
- Conditions



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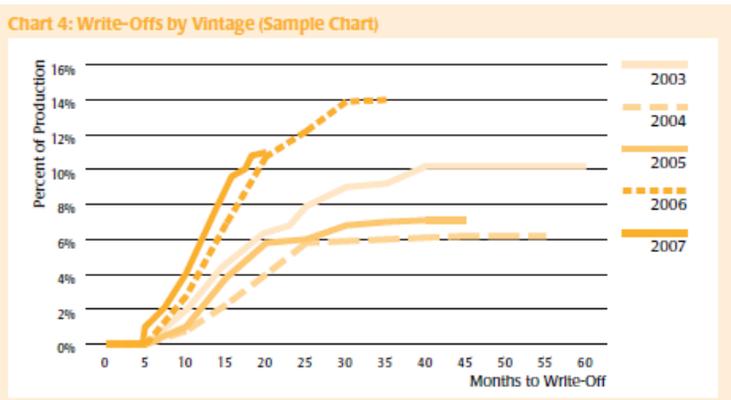
Monitoring Risk: Key Indicators



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Monitoring UW Risk



FROM D4D

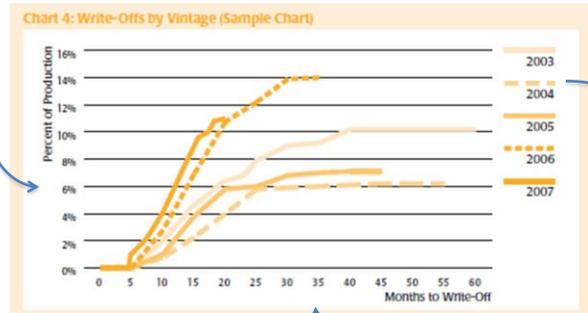


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Customizing the Tool

- Write-offs
- PAR



- Year
- Industry
- Geography

- Monthly
- Quarterly



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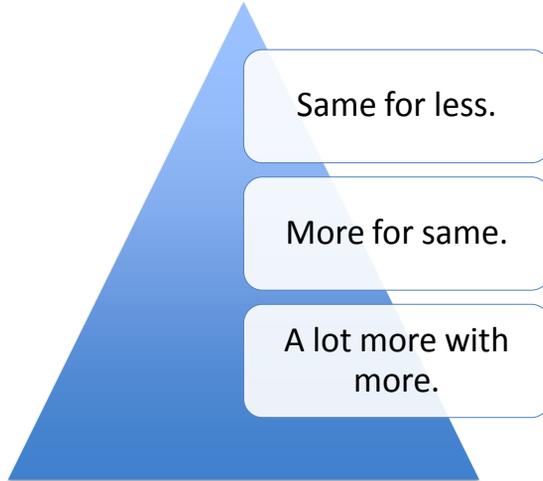
What did we learn about growing with quality?

- Monitor and manage risk, explore four core areas of credit, market, operational and liquidity risk
- Strike a balance between quantitative and qualitative factors of credit risk
- Practical tools that can help include vintage charts, peer examples



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Options for Increasing Efficiency



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Measuring Efficiency: Snapshot of Options

Cycle Time



- Lead to application
- Application to underwriting
- Underwriting to closing

Input/Output



- Cost per dollar lent or per loan made
- Customer satisfaction
- Conversion rates



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What did we learn about efficiency?

- First think critically about the type of efficiency you want
- Measuring efficiency = cycles times + input/outputs



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Sketch Out Tech Framework



Define Your Goal



Identify Bottlenecks



Does Tech Solve Problem?



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Share Your Experience

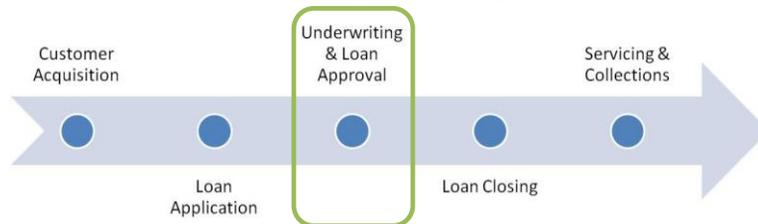
- Has your organization worked to centralize processes and increase access to its loan files?
- How are you currently accessing credit reports? How many people have direct access to the reports?
- What document storage solutions is your organization using?
- Has your organization incorporated technology into the document-collection process?



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Technologies to Improve the Lending Lifecycle



- Credit evaluation grids
- Statistical scoring models (MMS, build your own – ACCION East; OnDeck; InVenture/InSight)
- Use of alternative credit data (Demyst Data, Cignifi, Yodlee, LexisNexus, and L2C)



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Internal Evaluation Questions

- Defining problems/Pain points: What problem or pain point in the lending process do we address first? Is the pain point internal to the organization (i.e. staff capacity) or external (i.e. customer challenges)?
- Price: How much does the tool/technology to solve those problems cost upfront? What are the ongoing costs?
- Efficiency: How will this improve the efficiency of the loan process? How can I quantify this efficiency? What metrics will I use?



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More Internal Evaluation Questions

- Staff input: What expertise on the staff do I need to tap for insights into changes to be made in this area?
- Training: Is there an early adopter of technology that can help train others on staff (train the trainer)? Who can assist me in designing the training? How much time should I allot for adoption of the technology?
- Feedback: How will I garner feedback and make adjustments to new technology as we begin using it?



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What did we learn about technology?

- Sketch out a technology framework, using internal evaluation questions as a tool
- Think internally about bottlenecks in your own processes
- Explore available options from third-party vendors



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QUESTIONS?



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Areas of Specialization

Front-end focus

- Staffing in marketing/sales and underwriting

Back-end support

- Monitoring, compliance and collections.



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Hiring for Organizational Values



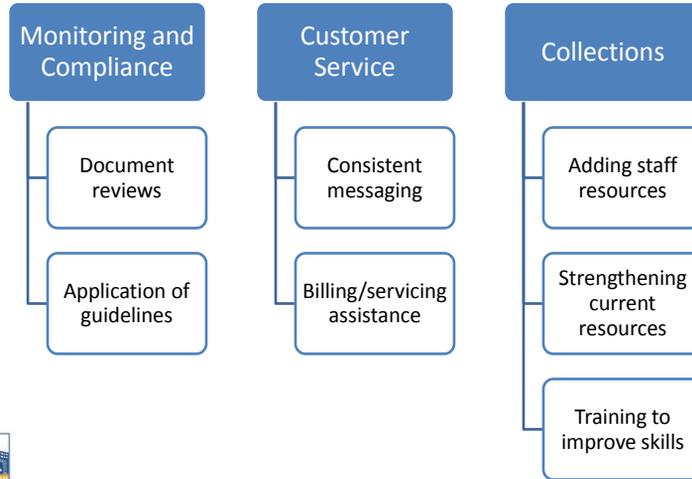
- Explicit, regular discussion of values.
- Hiring to those values first, combined with a focus on sales.
- Implemented incentive system that rewarded quality **and** production.



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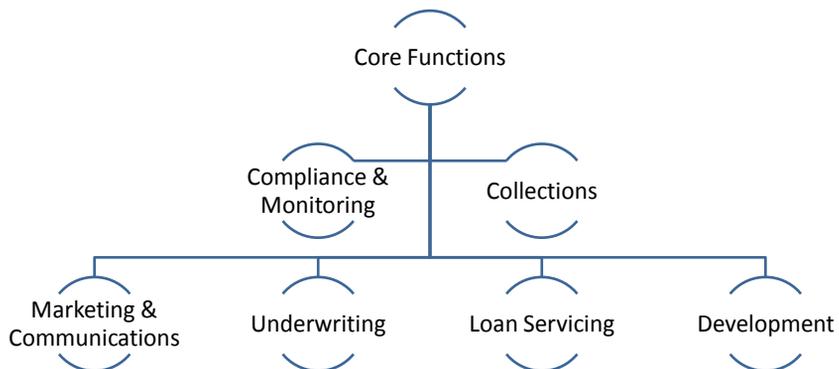
Quality and Production



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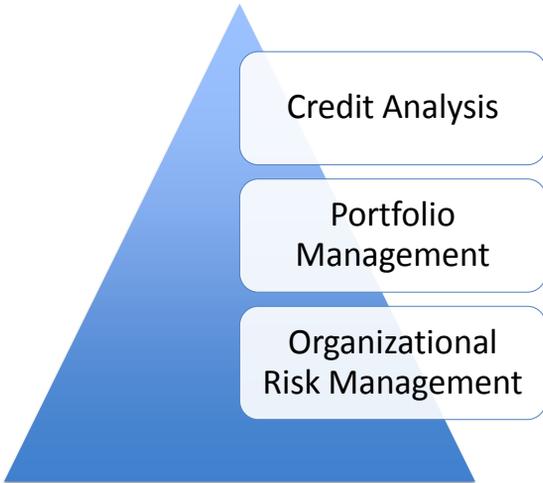
Functions that Support Scale



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Technical Training Areas for Underwriters



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Sustaining Success = Ongoing Support

Underwriters

- Portfolio analysis
- Loan structuring
- Lien perfection

Lenders

- Cash flow analysis
- Credit report analysis
- Loan file postmortems

Everyone

- Fraud awareness
- Economic trends
- Customer service



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What did we learn about team?

- Trends in the industry include specialization, value hiring, functions that support scale
- Create onboarding for success
- Focus on key technical areas of training for underwriters
- Keep training expertise fresh and offer ongoing support



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What Changes Are Group Members Making?



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QUESTIONS?



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ADDITIONAL RESOURCES & CONTACT INFORMATION



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Additional Resources

- Dollars for Dreams: Scaling Microlending in the United States (2010)
<http://fieldus.org/Publications/DollarsForDreams.pdf>
- Surviving the Recession: How Microlenders are Coping with Changing Demand, Risk and Funding (July 2010)
<http://fieldus.org/Publications/TrendlinesMicrofinance.pdf>
- FIELD forum Issue 23: The Organizational Foundations of Sustainability (2009) on ACCION New Mexico-Arizona-Colorado
<http://fieldus.org/Publications/FieldForum23.pdf>



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Sample Third-Party Technology Vendors

- Microloan Management Services:
<http://www.acciontexas.org/mms/about/>
- OnDeck Capital: <http://www.ondeck.com/>
- Inventure/Insight:
<http://www.inventure.org/using/learn-about-insight>
- Demyst data: <https://demystdata.com/>
- Cignifi: <http://www.cignifi.com/en-us/>
- Yodlee: <http://www.yodlee.com/>



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Thank you!

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www.microTracker.org

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 @AspenMicro



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Scaling Up Microfinance Fall Webinar Series

- **New Product Development**
– *Ashvin Prakash and Brenton Peck, CFSI*
- **Underwriting to Scale**
– *Leslie Hoffman and Luz Gomez, FIELD at the Aspen Institute*
- **Customer Acquisition-Reaching and Retaining Your Customers**
– *Ginger McNally, OFN and Maria Semple, The Prospect Finder*
- **Loan Fund and Credit Union Collaborations**
– *Seth Julyan, OFN and Melanie Stern, The Federation*
- **The Role of Market Research in Scaling Microfinance**
– *Tammy Halevy, AEO*

Oct
24

Nov
1

Nov
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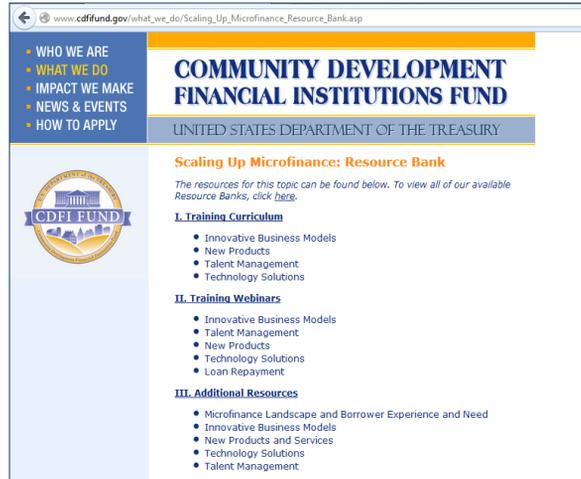
Nov
11

Nov
21



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CDFI Fund's Virtual Resource Bank



www.cdfifund.gov/what_we_do/Scaling_Up_Microfinance_Resource_Bank.asp

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

Scaling Up Microfinance: Resource Bank

The resources for this topic can be found below. To view all of our available Resource Banks, click [here](#).

I. Training Curriculum

- Innovative Business Models
- New Products
- Talent Management
- Technology Solutions

II. Training Webinars

- Innovative Business Models
- Talent Management
- New Products
- Technology Solutions
- Loan Repayment

III. Additional Resources

- Microfinance Landscape and Borrower Experience and Need
- Innovative Business Models
- New Products and Services
- Technology Solutions
- Talent Management



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